

file Sayvette Ltd.

# Sayvette

## 1968 ANNUAL REPORT

### Officers

A. Gold, *President and Chief Executive Officer*  
 T. L. Anderson, *Vice-President*  
 N. C. Van Hatten, *Vice-President*  
 F. E. Grimshaw, *Vice-President, Secretary-Treasurer and Comptroller*

### Directors

T. L. Anderson  
 D. M. Deacon  
 A. Gold  
 W. S. Robertson, Q.C.  
 B. H. Shelly  
 W. G. B. Sims  
 L. E. Weinstein

### Operations Executive

A. Gold, *President*  
 N. C. Van Hatten, *Vice-President and General Manager*  
 F. E. Grimshaw, *Vice-President Finance & Administration*  
 R. Greenhalgh, *Supervisor of Stores*  
 J. Cairoli, *Advertising and Sales Promotion Manager*  
 H. R. Cummings, R. Gorrie, M. Harold, D. E. Morelli, K. Palmer, A. Vardy, *Divisional Merchandise Managers*  
 P. B. White, *Manager Warehousing & Material Handling*  
 L. Carmichael, G. Doty, R. Featherstone, T. D. Reynolds, R. Wood, *Store Managers*

### Registrar and Transfer Agent

Canada Permanent Trust Co.

### Auditors

Thorne, Gunn, Helliwell & Christenson

### Bankers

The Toronto-Dominion Bank

### TO THE SHAREHOLDERS:

Attached are your Company's audited financial statements for the year ended December 28, 1968.

### Operating Results

As forecast in our 1968 mid-year report, operations for 1968 resulted in a profit. The net income for the year of \$216,479. represents a significant improvement of \$1,841,691. over the previous year's loss, as restated.

Gross Sales increased 13.05% to \$25,007,070. Late in 1967 Home Furnishings, and in May 1968, Cameras, became licensee departments. The remaining company department sales increased 15.3%.

### Personnel

The turn-around of your Company to a profitable operation was achieved despite sharply rising costs. It was due to a great team effort starting with the buying organization right through to the sales staff, ably led by the Store Managers.

### Outlook

The outlook is bright. Able people attract other able people, and your stores now have staff who are proud of the new image they have made. This is an encouraging background for the future of your Company.

Even though wages, interest rates, taxes, and the cost of all services continue to substantially increase, your Directors are of the opinion 1969 will continue the profitable trend established in 1968. Gross sales for the first quarter of 1969 increased \$588,100. resulting in an operating loss for the quarter of \$392,700 compared to \$456,800. for 1968, an improvement of \$64,100.

### Expansion Programme

A new store is under construction for your Company at Ajax by Bramalea Consolidated Developments Limited. Sayvette's obligations under the lease of this store are to be guaranteed by Loblaw Groceterias Co., Limited. It is expected that the Ajax store will be the first of a series of stores to be built by your Company and Bramalea.

On Behalf of the Board

A. GOLD  
*President*

# SAYVETTE LIMITED

(Incorporated under the laws of Canada)

and subsidiary company

## CONSOLIDATED BALANCE SHEET—DECEMBER 28, 1968

(with comparative figures for 1967)

### ASSETS

	1968	1967*
<b>CURRENT ASSETS</b>		
Cash - - - - -	\$ 65,258	\$ 39,917
Accounts receivable (note 2) - - - - -	99,679	284,082
Inventories (note 3) - - - - -	3,465,958	3,224,525
Prepaid expenses - - - - -	218,445	198,552
	<u>3,849,340</u>	<u>3,747,076</u>
FIXED ASSETS (note 4) - - - - -	1,782,732	1,877,653
DEFERRED CHARGES (note 5) - - - - -	244,361	307,929
	<u>\$5,876,433</u>	<u>\$ 5,932,658</u>

### LIABILITIES

<b>CURRENT LIABILITIES</b>		
Bank advance - - - - -	\$ 610,835	
7% Demand loan- - - - -	102,278	\$ 1,271,829
Accounts payable and accrued liabilities - - - - -	1,429,021	1,664,878
Sales and other taxes - - - - -	190,573	168,704
	<u>2,332,707</u>	<u>3,105,411</u>
<b>LOAN PAYABLE</b>		
7½%, due March 27, 1970 - - - - -	3,000,000	
7%, due March 31, 1969 - - - - -		2,500,000
	<u>5,332,707</u>	<u>5,605,411</u>

### SHAREHOLDERS' EQUITY

<b>CAPITAL STOCK (note 6)</b>		
Authorized—2,500,000 shares without par value		
Issued —1,234,425 shares - - - - -	5,702,488	5,702,488
<b>DEFICIT-</b> - - - - -	5,158,762	5,375,241
	<u>543,726</u>	<u>327,247</u>
	<u>\$ 5,876,433</u>	<u>\$ 5,932,658</u>

LONG-TERM LEASES (note 7)

ASSISTANCE AGREEMENT (note 8)

INCOME TAXES (note 9)

Approved by the Board

A. GOLD, *Director*

W. S. ROBERTSON, *Director*

\*1967 figures have been restated to reflect the 1968 deficit adjustment outlined in note 5.

### AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Sayvette Limited as at December 28, 1968 and the consolidated statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 28, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving effect in that year to the change in accounting practice outlined in note 5, with which change we concur.

Toronto, Canada  
March 11, 1969

THORNE, GUNN, HELLIWELL & CHRISTENSON  
*Chartered Accountants*



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEAR ENDED DECEMBER 28, 1968

1969 - 1973	\$ 4,925,000
1974 - 1978	4,925,000
1979 - 1983	4,925,000
1984 - 1988	4,715,000
1989 - 1993	4,025,000
after 1993	2,403,000
	<u>\$25,918,000</u>

Minimum annual rentals payable under such leases for the year 1969 are approximately \$985,000. Certain of the leases provide for renewal options and/or options to purchase at specified amounts.

The long-term leases do not include any obligations for the Eglinton and Brimley store lease which is under negotiation for the period commencing January 1, 1969.

### 8. ASSISTANCE AGREEMENT

The company agreed as of October 27, 1964 to pay an amount of \$2,500,000 on November 15, 1969 for assistance in the renegotiation of certain leases and advice and consultation to management, provided that the financial support shall not have then been withdrawn. The \$2,500,000 is to be paid, at the direction of the optionee, in cash and/or by the issuance of treasury shares under the unexercised portion of the option outlined in note 6(b).

If the financial support is withdrawn in the manner outlined in note 6(b) prior to November 15, 1969 the \$2,500,000 is reduced by \$500,000 for each full twelve month period between the withdrawal date and November 15, 1969. In the opinion of counsel for the company no liability exists to make any payment under the assistance agreement prior to November 15, 1969. Accordingly, the company has decided to provide for the liability at that date. \*

### 9. INCOME TAXES

No provision for income taxes is required for the year as a result of the application of previous years' losses against the current year's income. Taxes otherwise payable for the year would have been \$147,000 after claiming capital cost equal to recorded depreciation.

Amounts available to be claimed against taxable income in future years the effect of which have not been reflected in the accounts may be summarized as follows:

Tax loss carry forward expiring

December 1969	\$ 610,632
December 1970	73,545
December 1972	<u>1,226,761</u>
	1,910,938

Excess of undepreciated capital cost over net book value of depreciable fixed assets

<u>920,972</u>
2,831,910

Less deferred charges already claimed

<u>244,361</u>
<u>\$2,587,549</u>

### 10. GROSS SALES

Included in sales are licensee sales of \$8,718,252 (\$5,719,394 in 1967); the related costs are included in cost of sales, selling and administrative expenses.

### 11. SUBSEQUENT EVENTS

Subsequent to the date of the balance sheet the company contracted with Bramalea Consolidated Developments Limited to lease a new store presently under construction. The lease, which is still to be executed, will provide for a minimum annual rental of \$191,000 exclusive of lessee expenses. The lease will also provide for renewal options. The company's obligations under the agreement have been guaranteed by Loblaw Groceries Co., Limited.

### 12. OTHER STATUTORY INFORMATION

Remuneration of directors and senior officers is as follows:

	<u>1968</u>	<u>1967</u>
Directors		\$ 64,291
Others	\$ 96,983	\$ 63,301
	<u>\$ 96,983</u>	<u>\$ 127,592</u>

## CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 28, 1968 (with comparative figures for 1967)

	1968	1967*
Gross sales less returns (note 10) - - - - -	\$25,007,070	\$22,120,165
Cost of sales, selling and administrative expenses - - - - -	24,338,914	23,250,383
Income (loss) for the year before the undernoted items - - - - -	668,156	(1,130,218)
Interest on non-current loan - - - - -	175,000	
Depreciation - - - - -	213,109	184,137
Amortization of deferred charges (note 5) - - - - -	63,568	310,865
Net income (loss) for the year (note 9) - - - - -	<u>\$ 216,479</u>	<u>\$(1,625,220)</u>

## CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 28, 1968 (with comparative figures for 1967)

	1968	1967*
Deficit at beginning of year		
As previously reported - - - - -	\$ 5,222,124	\$ 3,706,305
Amortization of deferred charges (note 5) - - - - -	153,117	
Prior year rental charges - - - - -		43,716
As restated - - - - -	5,375,241	3,750,021
Net income (loss) for the year - - - - -	216,479	(1,625,220)
Deficit at end of year - - - - -	<u>\$ 5,158,762</u>	<u>\$ 5,375,241</u>

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 28, 1968 (with comparative figures for 1967)

	1968	1967*
Source of funds		
Operations		
Net income (loss) for the year - - - - -	\$ 216,479	\$(1,625,220)
Add items not involving a current outlay of funds		
Depreciation- - - - -	213,109	184,137
Amortization of deferred charges - - - - -	63,568	310,865
	493,156	(1,130,218)
Loan payable - - - - -	500,000	2,500,000
Proceeds from sale of fixed assets - - - - -	4,349	3,800
	<u>997,505</u>	<u>1,373,582</u>
Application of funds		
Additions to fixed assets - - - - -	122,537	125,050
Increase in deferred charges - - - - -		46,857
	<u>122,537</u>	<u>171,907</u>
Improvement in working capital position - - - - -	874,968	1,201,675
Working capital (deficiency) at beginning of year - - - - -	641,665	(560,010)
Working capital at end of year - - - - -	<u>\$ 1,516,633</u>	<u>\$ 641,665</u>

\*1967 figures have been restated to reflect the 1968 deficit adjustment outlined in note 5.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 28, 1968

### 1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its inactive subsidiary.

### 2. ACCOUNTS RECEIVABLE

Included in accounts receivable is an amount of \$7,688 due from a director which has been received subsequent to December 28, 1968.

### 3. INVENTORIES

Inventories are stated at the lower of cost and market, being selling price less normal gross profit.

### 4. FIXED ASSETS

	1968		1967
	Cost	Accumulated Depreciation	Net
Fixtures and equipment	\$1,732,951	\$578,126	\$1,154,825
Leasehold improvements	856,467	228,560	627,907
	<u>\$2,589,418</u>	<u>\$806,686</u>	<u>\$1,782,732</u>
			<u>\$1,255,797</u>
			<u>621,856</u>
			<u>\$1,877,653</u>

All fixed assets are being depreciated on a straight-line basis over their estimated useful life.

Fixtures and equipment are being depreciated at 7½% per annum.

Leasehold improvements in the year 1964 and prior at a cost of \$533,431 and a net book value of \$420,947 are being depreciated over 35 years the approximate term of the leases involved.

Leasehold improvements in the year 1965 and subsequent at a cost of \$323,036 and a net book value of \$206,090 are being depreciated at 15% per annum.

### 5. DEFERRED CHARGES

Deferred charges consist of the following:

	1968	1967
Fixture rent, at cost less amortization	<u>\$244,361</u>	<u>\$307,929</u>

These store fixtures, paid for over a five year period ended in November 1967 are being amortized over a ten year period ending in 1972.

The company in the current year changed its method of accounting for new store opening and institutional advertising expense although none was incurred in the current year. A two year amortization of such expense was implemented in prior years. In the current year a new policy of a twelve month amortization has been decided upon. Consequently the 1967 figures have been restated to reflect expense of \$153,117 previously deferred at December 31, 1967 which was to have been written off in the two year period ended November 1968. The effect of this change in accounting practice has been to increase net income for the year by \$153,117.

### 6. CAPITAL STOCK

(a) Options which may be exercised commencing in 1969 at various dates up to December 31, 1973 have been granted to employees on 68,575 shares at \$3.70 per share.

Of the outstanding options 37,075 are for Directors and Officers.

(b) In consideration of financial support of up to \$2,500,000 until November 1, 1969 the company has granted to that date an option at \$3.25 per share on 800,000 shares. The financial support may be withdrawn if control of the company changes hands, in which event the option will be terminated, subject to the right of the optionee on the withdrawal date to purchase shares under the option and to apply against the purchase price any indebtedness by the company to the optionee. During the period of this option dividends may not be declared without the consent of the optionee.

### 7. LONG-TERM LEASES

The aggregate minimum rentals under long-term leases on premises and equipment (extending beyond five years from the balance sheet date) in effect at December 28, 1968 are as follows for each of the periods shown

Gold - We will be discussing such bigger projects next year

Stubs! - Order of stubs will be changed

Gold said: don't need agreement - 'We will...'

Stubs - voted for approval of fund stubs

Golds up 18 to for  
1st half - 5km for 5th

Yore + Stubs here.

Stubs! Done highly in favor of Landlord. - You'll even make money in the store!

the Landlord is going to to you left + right

Gold - She is doing everything well

up 1840 in for 6 months.

rents not out of line? Co-opt for Landlord.

a much more than rent to as will buy us more for

not lower! people stopped shopping here we need to get the right thing!  
no such thing as high rent if you're doing smart biz!

Chase? - not all next year - Jan 30 - 1970 - By the way in fall -

June co.

K.H. the Day tomorrow!

Chase will definitely run by.